

City of South Lyon, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of South Lyon, Michigan
Financial Report
June 30, 2008

Mayor John Doyle, Jr.

City Council

Glenn Kivell, Mayor Pro Tem

Erin Kopkowski

Patricia Maida

Ron Morelli

Charles Dick Selden

Harvey Wedell

City Administration

City Manager

City Clerk/Treasurer

Police Chief

Fire Chief

Water and Wastewater Treatment Superintendent

Department of Public Works Superintendent

Building/Zoning Inspector

Building Inspector

Bookkeeper

David M. Murphy

Julie C. Zemke

Lloyd Collins

Craig Kaska

Robert Martin

Steve Renwick

Joe Veltri

Michael Jakubowski

Lori Mosier

City of South Lyon, Michigan

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Independent Auditor's Report

To the Members of the City Council
City of South Lyon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of South Lyon, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South Lyon, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparisons are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the City Council
City of South Lyon, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of South Lyon, Michigan's basic financial statements. The accompanying other supplemental information and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Plante & Moreau, PLLC

September 9, 2008

City of South Lyon, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of South Lyon, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- Expenditures exceeded revenues in the General Fund, thus reducing fund balance by approximately \$212,000. This exceeded expectations as the final amended budget expected a decrease of approximately \$347,000.
- Total net assets related to the City's governmental activities increased by approximately \$803,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayer's resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The City of South Lyon as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2008 and 2007 (in thousands):

| | Governmental Activities | | Business-type Activities | | Total | |
|------------------------------|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | | | |
| Current assets | \$ 9,446 | \$ 9,481 | \$ 9,658 | \$ 9,495 | \$ 19,104 | \$ 18,976 |
| Noncurrent assets | 25,327 | 24,783 | 33,250 | 33,559 | 58,577 | 58,342 |
| Total assets | 34,773 | 34,264 | 42,908 | 43,054 | 77,681 | 77,318 |
| Liabilities | | | | | | |
| Current liabilities | 1,343 | 1,723 | 1,365 | 1,237 | 2,708 | 2,960 |
| Long-term liabilities | 2,203 | 2,117 | 15,801 | 16,391 | 18,004 | 18,508 |
| Total liabilities | 3,546 | 3,840 | 17,166 | 17,628 | 20,712 | 21,468 |
| Net Assets | | | | | | |
| Invested in capital assets - | | | | | | |
| Net of related debt | 22,614 | 22,274 | 16,649 | 16,393 | 39,263 | 38,667 |
| Restricted | 1,850 | 1,710 | 7,724 | 7,516 | 9,574 | 9,226 |
| Unrestricted | 6,763 | 6,440 | 1,369 | 1,517 | 8,132 | 7,957 |
| Total net assets | <u>\$ 31,227</u> | <u>\$ 30,424</u> | <u>\$ 25,742</u> | <u>\$ 25,426</u> | <u>\$ 56,969</u> | <u>\$ 55,850</u> |

The City's combined net assets increased 2.0 percent from a year ago - increasing from \$55,849,819 to \$56,968,944. Net assets of both the governmental and business-type activities increased during the year. This is an indication that the taxpayers and users of City services paid the full cost of providing those services in the current year. This measurement is one of the goals of full accrual financial statement presentation.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, did not change significantly for the governmental activities. The current level of unrestricted net assets related to governmental activities is a surplus of \$6,763,350.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the years ended June 30, 2008 and 2007 (in thousands):

| | Governmental Activities | | Business-type Activities | | Total | |
|---------------------------------------|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Net Assets - Beginning of year | \$ 30,424 | \$ 29,694 | \$ 25,426 | \$ 24,655 | \$ 55,850 | \$ 54,349 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | 1,173 | 803 | 2,441 | 2,114 | 3,614 | 2,917 |
| Operating grants and contributions | 624 | 609 | - | - | 624 | 609 |
| Capital grants and contributions | 15 | 5 | 216 | 295 | 231 | 300 |
| General revenue: | | | | | | |
| Property taxes | 4,610 | 4,478 | 1,017 | 988 | 5,627 | 5,466 |
| State-shared revenue | 828 | 843 | - | - | 828 | 843 |
| Interest | 328 | 412 | 263 | 376 | 591 | 788 |
| Transfers and other revenue | 37 | 25 | (32) | (25) | 5 | - |
| Total revenue | 7,615 | 7,175 | 3,905 | 3,748 | 11,520 | 10,923 |
| Program Expenses | | | | | | |
| General government | 1,371 | 1,293 | - | - | 1,371 | 1,293 |
| Public safety | 2,772 | 2,583 | - | - | 2,772 | 2,583 |
| Public works | 2,249 | 1,946 | - | - | 2,249 | 1,946 |
| Community and economic development | 100 | 155 | - | - | 100 | 155 |
| Cultural and recreation | 180 | 312 | - | - | 180 | 312 |
| Interest on long-term debt | 140 | 156 | - | - | 140 | 156 |
| Water and sewer | - | - | 3,589 | 2,977 | 3,589 | 2,977 |
| Total program expenses | 6,812 | 6,445 | 3,589 | 2,977 | 10,401 | 9,422 |
| Change in Net Assets | 803 | 730 | 316 | 771 | 1,119 | 1,501 |
| Net Assets - End of year | <u>\$ 31,227</u> | <u>\$ 30,424</u> | <u>\$ 25,742</u> | <u>\$ 25,426</u> | <u>\$ 56,969</u> | <u>\$ 55,850</u> |

Governmental Activities

The City's total governmental expenses increased by approximately \$367,000, due to increases in personnel costs and inflationary increases to other routine expenses during the current year. There were no unusual events or circumstances that contributed to these increases.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water distribution and sewage treatment to residents from our water supply and treatment facility. Expenses increased approximately \$612,000. The majority of this increase is due to an increase in depreciation expenses taken on the capitalized construction costs of the wastewater treatment plant. Water and sewage treatment rates charged to customers were increased in December 2007.

The City of South Lyon's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The South Lyon City Council creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as major and local road maintenance and debt service. The City's major funds for 2008 include the General Fund, the Capital Improvements Fund, the Building Authority Fund, and the Water and Sewer Fund.

The General Fund pays for most of the City's governmental services. The most significant is the police department, which incurred expenses of approximately \$2,278,000 in 2008. Other government services accounted for in the General Fund include general government, the department of public works, the fire department, and recreation.

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to account for changes made necessary due to unanticipated events or situations requiring less expenditures for operational and capital expenditures.

The General Fund had budget overruns in the fire department for the unbudgeted purchase of a fire truck, and in general government. Overall, the total expenditures were approximately \$264,000 over budget; however, revenues and other financing sources offset this as those were overbudget by \$398,000.

The Capital Improvement Fund had a budget overrun in its professional services expenses for higher than expected fees. Overall, the total expenditures were approximately \$1,141,000 under budget.

Capital Asset and Debt Administration

At the end of 2008, the City had approximately \$58,577,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

City of South Lyon, Michigan

Management's Discussion and Analysis (Continued)

The water and wastewater treatment plant has been substantially completed. To date, approximately \$18,414,000 of new construction costs have been capitalized related to the treatment plant, including \$122,000 during the 2007-2008 fiscal year. The construction is being financed by a loan from the State of Michigan Revolving Fund that is being paid over 20 years through 2025.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year takes into consideration another potential decrease in state-shared revenues; however, given our healthy fund balance, we do not anticipate any reductions in service levels based on potential revenue reductions. Over the years, the City has had the flexibility to adjust various ad valorem tax rates as necessary and as determined by Headlee, Truth in Taxation, and Proposal A. The state-wide Tax Reform Acts limit growth in taxable value to inflation or 5 percent, whichever is less. Inflation rates in recent years have only been in the range of 1.5 percent to 3.7 percent.

Due to the continuing residential growth within the City's corporate boundaries, our taxable tax base has recently increased between \$10,000,000 and \$28,000,000 annually. Additionally, as existing homes are sold, their taxable value becomes "uncapped" at the time of exchange and is increased to the higher state equalized value. After the exchange, the annual limitations required by the Headlee Amendment and Proposal A begin to apply from that date forward; however, when there are exchanges, the City may experience an increase in taxable value on those properties. Due to the troubled economy of Southeastern Michigan, the taxable value of the City has actually decreased 1.7 percent for 2008-2009.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of South Lyon, Michigan

Statement of Net Assets June 30, 2008

| | Primary Government | | | Component Unit - |
|------------------------------------|----------------------|----------------------|----------------------|-------------------|
| | Governmental | Business-type | | Downtown |
| | Activities | Activities | Total | Development |
| | | | | Authority |
| Assets | | | | |
| Cash and cash equivalents (Note 3) | \$ 9,055,261 | \$ 590,620 | \$ 9,645,881 | \$ 118,095 |
| Receivables (Note 4) | 768,386 | 763,204 | 1,531,590 | - |
| Internal balances | (552,720) | 552,720 | - | - |
| Prepaid costs and other assets | 175,254 | 27,980 | 203,234 | 2,000 |
| Restricted assets (Note 1) | - | 7,723,526 | 7,723,526 | - |
| Capital assets (Note 5): | | | | |
| Not being depreciated | 3,207,804 | 147,317 | 3,355,121 | - |
| Depreciable - Net | 22,119,061 | 33,102,389 | 55,221,450 | - |
| Total assets | 34,773,046 | 42,907,756 | 77,680,802 | 120,095 |
| Liabilities | | | | |
| Accounts payable | 187,569 | 360,914 | 548,483 | - |
| Accrued and other liabilities | 372,705 | 204,280 | 576,985 | - |
| Long-term debt (Note 7): | | | | |
| Due within one year | 782,058 | 800,000 | 1,582,058 | - |
| Due in more than one year | 2,203,350 | 15,800,982 | 18,004,332 | - |
| Total liabilities | 3,545,682 | 17,166,176 | 20,711,858 | - |
| Net Assets | | | | |
| Invested in capital assets - | | | | |
| Net of related debt | 22,613,812 | 16,648,724 | 39,262,536 | - |
| Restricted (Note 11) | 1,850,202 | 7,723,526 | 9,573,728 | - |
| Unrestricted | 6,763,350 | 1,369,330 | 8,132,680 | 120,095 |
| Total net assets | \$ 31,227,364 | \$ 25,741,580 | \$ 56,968,944 | \$ 120,095 |

City of South Lyon, Michigan

| Functions/Programs | Expenses | Program Revenues | |
|---|----------------------|----------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions |
| Primary government: | | | Capital Grants and Contributions |
| Governmental activities: | | | |
| General government | \$ 1,370,609 | \$ 477,336 | \$ 19,708 |
| Public safety | 2,772,227 | 53,359 | - |
| Public works | 2,248,930 | 82,089 | 485,440 |
| Community and economic development | 100,595 | 560,763 | 118,380 |
| Cultural and recreation | 180,051 | - | - |
| Interest on long-term debt | 139,636 | - | - |
| Total governmental activities | 6,812,048 | 1,173,547 | 623,528 |
| Business-type activities - Water and sewer | 3,588,648 | 2,441,463 | - |
| Total primary government | <u>\$ 10,400,696</u> | <u>\$ 3,615,010</u> | <u>\$ 623,528</u> |
| Component unit - Downtown Development Authority | <u>\$ 50,421</u> | <u>\$ -</u> | <u>\$ 300</u> |
| General revenues: | | | |
| Property taxes | | | |
| State-shared revenues | | | |
| Interest | | | |
| Transfers | | | |
| Gain on sale of assets | | | |
| Total general revenues | | | |
| Change in Net Assets | | | |
| Net Assets - July 1, 2007 | | | |
| Net Assets - June 30, 2008 | | | |

Statement of Activities
Year Ended June 30, 2008

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|-------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-type Activities | Total | |
| \$ (873,565) | \$ - | \$ (873,565) | \$ - |
| (2,718,868) | - | (2,718,868) | - |
| (1,666,401) | - | (1,666,401) | - |
| 578,548 | - | 578,548 | - |
| (180,051) | - | (180,051) | - |
| (139,636) | - | (139,636) | - |
| (4,999,973) | - | (4,999,973) | - |
| - | (931,545) | (931,545) | - |
| (4,999,973) | (931,545) | (5,931,518) | - |
| - | - | - | (50,121) |
| 4,609,924 | 1,016,672 | 5,626,596 | 45,994 |
| 827,676 | - | 827,676 | - |
| 328,017 | 263,016 | 591,033 | 4,052 |
| 32,168 | (32,168) | - | - |
| 5,338 | - | 5,338 | - |
| 5,803,123 | 1,247,520 | 7,050,643 | 50,046 |
| 803,150 | 315,975 | 1,119,125 | (75) |
| 30,424,214 | 25,425,605 | 55,849,819 | 120,170 |
| \$ 31,227,364 | \$ 25,741,580 | \$ 56,968,944 | \$ 120,095 |

City of South Lyon, Michigan

Governmental Funds Balance Sheet June 30, 2008

| | General Fund | Special Revenue Fund - Capital Improvements Fund | Debt Service Fund - Building Authority Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---|--|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents (Note 3) | \$ 3,109,594 | \$ 3,969,760 | \$ 216,031 | \$ 1,759,876 | \$ 9,055,261 |
| Receivables (Note 4): | | | | | |
| Customers | 120,588 | - | - | - | 120,588 |
| South Lyon Community Schools | - | - | 412,155 | - | 412,155 |
| Other governmental units | 133,639 | - | - | 102,004 | 235,643 |
| Due from other funds (Note 6) | 55,479 | - | - | - | 55,479 |
| Other current assets | 164,097 | - | - | 11,157 | 175,254 |
| Total assets | \$ 3,583,397 | \$ 3,969,760 | \$ 628,186 | \$ 1,873,037 | \$ 10,054,380 |
| Liabilities | | | | | |
| Accounts payable | \$ 114,226 | \$ 56,632 | \$ - | \$ 16,711 | \$ 187,569 |
| Accrued and other liabilities | 170,691 | - | - | 4,166 | 174,857 |
| Due to other funds (Note 6) | - | 595,455 | - | 12,744 | 608,199 |
| Due to other governmental units | 80 | - | - | - | 80 |
| Cash bonds and deposits | 172,491 | - | - | - | 172,491 |
| Deferred revenue (Note 4) | - | - | 412,155 | - | 412,155 |
| Total liabilities | 457,488 | 652,087 | 412,155 | 33,621 | 1,555,351 |
| Fund Balances | | | | | |
| Reserved for future cemetery expenditures | - | - | - | 675,710 | 675,710 |
| Unreserved - Reported in: | | | | | |
| General Fund | 2,939,222 | - | - | - | 2,939,222 |
| Special Revenue Funds | - | 2,831,815 | - | 1,099,084 | 3,930,899 |
| Debt Service Funds | - | - | 216,031 | 1,219 | 217,250 |
| Unreserved - Designated for subsequent year's expenditures: | | | | | |
| General Fund | 186,687 | - | - | - | 186,687 |
| Special Revenue Funds | - | 485,858 | - | 56,503 | 542,361 |
| Debt Service Funds | - | - | - | 6,900 | 6,900 |
| Total fund balances | 3,125,909 | 3,317,673 | 216,031 | 1,839,416 | 8,499,029 |
| Total liabilities and fund balances | \$ 3,583,397 | \$ 3,969,760 | \$ 628,186 | \$ 1,873,037 | \$ 10,054,380 |

Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2008

| | |
|--|----------------------|
| Fund Balance - Total Governmental Funds | \$ 8,499,029 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 25,326,865 |
| Accrued interest on long-term liabilities is not reported in the funds | (25,277) |
| Receivables are expected to be collected over several years and are not available | 412,155 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (2,985,408) |
| Net Assets - Governmental Activities | \$ 31,227,364 |

City of South Lyon, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

| | General Fund | Special Revenue Fund - Capital Improvements Fund | Debt Service Fund - Building Authority Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---|--|--------------------------------|
| Revenues | | | | | |
| Property taxes | \$ 3,521,056 | \$ 815,669 | \$ 224,275 | \$ 48,924 | \$ 4,609,924 |
| Federal sources | 19,708 | - | - | 29,347 | 49,055 |
| State sources | 847,606 | - | - | 485,440 | 1,333,046 |
| Local sources | - | - | 186,393 | - | 186,393 |
| Licenses and permits | 56,264 | - | - | - | 56,264 |
| Charges for services | 333,746 | - | - | 54,000 | 387,746 |
| Fines and forfeitures | 25,711 | - | - | - | 25,711 |
| Interest and other | 255,095 | 122,031 | 8,290 | 135,482 | 520,898 |
| Total revenues | 5,059,186 | 937,700 | 418,958 | 753,193 | 7,169,037 |
| Expenditures | | | | | |
| General government | 1,337,536 | - | - | - | 1,337,536 |
| Public safety | 3,226,763 | - | - | - | 3,226,763 |
| DPW, cemetery, and road improvements | 846,746 | 218,188 | - | 860,240 | 1,925,174 |
| Cultural and recreation | 160,326 | - | - | - | 160,326 |
| Capital outlay | - | - | - | 626,867 | 626,867 |
| Debt service | - | - | 402,893 | 132,122 | 535,015 |
| Total expenditures | 5,571,371 | 218,188 | 402,893 | 1,619,229 | 7,811,681 |
| Excess of Revenues Over (Under) Expenditures | (512,185) | 719,512 | 16,065 | (866,036) | (642,644) |
| Other Financing Sources (Uses) | | | | | |
| Operating transfers in from other funds (Note 6) | 16,572 | 29,347 | - | 630,721 | 676,640 |
| Operating transfers out to other funds (Note 6) | (177,171) | (421,382) | - | (45,919) | (644,472) |
| Proceeds from issuance of long-term debt | 460,770 | - | - | 135,000 | 595,770 |
| Total other financing sources (uses) | 300,171 | (392,035) | - | 719,802 | 627,938 |
| Net Change in Fund Balances | (212,014) | 327,477 | 16,065 | (146,234) | (14,706) |
| Fund Balances - July 1, 2007 | 3,337,923 | 2,990,196 | 199,966 | 1,985,650 | 8,513,735 |
| Fund Balances - June 30, 2008 | <u>\$ 3,125,909</u> | <u>\$ 3,317,673</u> | <u>\$ 216,031</u> | <u>\$ 1,839,416</u> | <u>\$ 8,499,029</u> |

City of South Lyon, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

| | |
|---|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (14,706) |
|---|--------------------|

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|-----------|
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation | 548,741 |
| Disposed property and equipment are not recorded in the fund-based statements | (4,662) |
| Proceeds from issuance of long-term debt are recorded as revenue in the fund-based statements | (595,770) |
| Revenue is not reported in the funds until collected or collectible within 60 days of year end | 412,155 |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 391,420 |
| Change in accrued interest on long-term debt is not recorded in the governmental funds | (5,493) |
| Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities | 71,465 |

| | |
|--|--------------------------|
| Change in Net Assets of Governmental Activities | <u>\$ 803,150</u> |
|--|--------------------------|

City of South Lyon, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Net Assets June 30, 2008

Assets

Current assets:

| | |
|------------------------------------|---------------|
| Cash and cash equivalents (Note 3) | \$ 590,620 |
| Customer receivables (Note 4) | 763,204 |
| Due from other funds (Note 6) | 595,455 |
| Other current assets | <u>27,980</u> |

Total current assets 1,977,259

Noncurrent assets:

| | |
|----------------------------|-------------------|
| Restricted assets (Note 1) | 7,723,526 |
| Capital assets (Note 5) | <u>33,249,706</u> |

Total noncurrent assets 40,973,232

Total assets 42,950,491

Liabilities

| | |
|--|----------------|
| Accounts payable | 360,914 |
| Accrued and other liabilities | 204,280 |
| Due to other funds (Note 6) | 42,735 |
| Current portion of long-term debt (Note 7) | <u>800,000</u> |

Total current liabilities 1,407,929

Long-term debt - Net of current portion (Note 7) 15,800,982

Total liabilities 17,208,911

Net Assets

| | |
|--|------------------|
| Investment in capital assets - Net of related debt | 16,648,724 |
| Restricted | 7,723,526 |
| Unrestricted | <u>1,369,330</u> |

Total net assets \$ 25,741,580

City of South Lyon, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2008

Operating Revenues

| | |
|--------------------------------|------------|
| Water sales | \$ 775,072 |
| Sewage disposal | 1,001,936 |
| Refuse collection | 455,758 |
| Billing and collection charges | 83,420 |
| Hydrant rental | 25,050 |
| Penalties assessed | 27,121 |
| Total operating revenues | 2,368,357 |

Operating Expenses

| | |
|-----------------------------------|-----------|
| Personnel services: | |
| Salaries and wages | 592,044 |
| Fringe benefits | 339,890 |
| Equipment repairs and maintenance | 148,839 |
| Public utilities | 415,046 |
| Refuse collection | 454,213 |
| Depreciation and amortization | 1,326,468 |
| Other services and charges | 58,567 |
| Supplies | 224,791 |
| Insurance | 25,298 |
| Other | 3,492 |
| Total operating expenses | 3,588,648 |

Operating Loss (1,220,291)

Nonoperating Revenue

| | |
|----------------------------|-----------|
| Property taxes | 1,016,672 |
| Interest income | 263,016 |
| Other income | 73,106 |
| Total nonoperating revenue | 1,352,794 |

Income - Before other financing uses and capital contributions 132,503

Other Financing Uses - Operating transfers out (Note 6) (32,168)

Capital Contributions 215,640

Change in Net Assets 315,975

Net Assets - July 1, 2007 25,425,605

Net Assets - June 30, 2008 \$ 25,741,580

City of South Lyon, Michigan

Proprietary Fund Enterprise Fund - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2008

Cash Flows from Operating Activities

| | |
|---|-----------------|
| Receipts from customers | \$ 2,351,303 |
| Payments to suppliers | (1,226,203) |
| Payments to employees | (933,228) |
| Internal activity - Payments to other funds | <u>(59,150)</u> |

Net cash provided by operating activities 132,722

Cash Flows from Capital and Related Financing Activities

| | |
|---|------------------|
| Collection of customer assessments | 215,640 |
| Proceeds from long-term debt | 209,831 |
| Principal and interest paid on long-term debt | (1,172,461) |
| Property tax revenue received | 1,016,672 |
| Operating transfers to Debt Service Funds | (32,168) |
| Purchase of capital assets | <u>(618,695)</u> |

Net cash used in capital and related
financing activities (381,181)

Cash Flows from Investing Activities - Interest received on investments 336,122

Net Increase in Cash and Cash Equivalents 87,663

Cash and Cash Equivalents - July 1, 2007 8,226,483

Cash and Cash Equivalents - June 30, 2008 \$ 8,314,146

Balance Sheet Classification of Cash and Cash Equivalents

| | |
|-----------------------------|------------------|
| Cash and cash equivalents | \$ 590,620 |
| Restricted assets (Note 11) | <u>7,723,526</u> |

Total \$ 8,314,146

Reconciliation of Operating Loss to Net Cash from Operating Activities

| | |
|---|-----------------|
| Operating loss | \$ (1,220,291) |
| Adjustments to reconcile operating loss to net cash from operating activities: | |
| Depreciation and amortization | 1,326,376 |
| Changes in assets and liabilities: | |
| Receivables | (52,194) |
| Prepaid and other assets | 35,140 |
| Accounts payable | 104,043 |
| Accrued and other liabilities | (1,202) |
| Due to other funds | <u>(59,150)</u> |

Net cash provided by operating activities \$ 132,722

There were no noncash transactions during the year ended June 30, 2008.

The Notes to Financial Statements are an
Integral Part of this Statement.

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of South Lyon, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City of South Lyon, Michigan and its component unit, an entity for which the City is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City and separate financial statements are not issued for the component unit.

The South Lyon Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire and lease property to the City.

Discretely Presented Component Unit

- a. The Downtown Development Authority (DDA) of the City is reported in a separate column to emphasize that it is legally separate from the City. The DDA was created in an effort to correct and prevent the deterioration of the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of nine individuals, is appointed by the city manager and confirmed by the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report.
- b. The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to residents of the City. The EDC's governing body consists of seven individuals who are appointed by the City Council. The EDC had no activity during the fiscal year ended June 30, 2008, and has no financial resources as of June 30, 2008. Accordingly, there is no financial information for the EDC included in these financial statements.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the Downtown Development Authority, a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, special assessments, state-shared revenue, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. All other revenue items, such as fines and permits, are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvements Fund - The Capital Improvements Fund is used to account for special tax levies and other resources used for the development of various capital assets acquired or constructed by the City.

Building Authority Fund - The Building Authority Fund is used primarily to account for transactions between the City and South Lyon Community Schools in relation to the joint administration building and debt service for other Building Authority projects.

The City reports the following major proprietary fund:

Enterprise Fund - Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts had been recorded, as the City believes all receivables will be collected.

Property Taxes - Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are due on September 15 with the final collection date of February 28 before they are added to the delinquent county tax rolls.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2007 taxable valuation of the City totaled approximately \$407.1 million, on which ad valorem taxes levied consisted of 11.2500 mills for the City's operating purposes and 2.5000 mills for water and sewer debt service. The ad valorem taxes levied raised approximately \$4.6 million for City operations and approximately \$1.0 million for water and sewer debt service. These amounts are recognized in the respective General Fund, Special Revenue Funds, Debt Service Funds, and Enterprise Fund financial statements as taxes receivable or as tax revenue.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets consist of cash and cash equivalents held for water and wastewater system improvements and equipment replacement. Included in this amount is a portion of water and sewer tap-in fees required by local ordinance to be restricted for improvements. Restricted tap-in fees totaled approximately \$216,000 for the year ended June 30, 2008.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and a useful life of greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, approximately \$398,000 of interest expense was capitalized as part of the cost of assets under construction.

Roads, buildings, equipment, and vehicles are depreciated using the straight-line method over their estimated useful lives:

| | |
|---|----------------|
| Wastewater treatment plant and equipment | 10 to 40 years |
| Water treatment plant and equipment | 10 to 40 years |
| Utility system, buildings, and improvements | 17 to 40 years |
| Roads and sidewalks | 20 to 25 years |
| Buildings and improvements | 15 to 40 years |
| Other tools, furniture, and equipment | 5 to 15 years |

Note 1 - Summary of Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policy, employees earn sick and vacation time based on time of service with the City. All vacation and sick pay is accrued when incurred in the government-wide financial statements. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. On the governmental fund financial statements, the face amount of debt issued is reported as other financing sources.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The annual budget is prepared by the City manager and submitted to the City Council at its meeting nearest the third Monday in April of each year. The budget is adopted by the City Council no later than the second regular City Council meeting in May. Subsequent amendments are approved by the City Council. Amendments may be made by the City Council up until the last day of the fiscal year. The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

Unexpended appropriations lapse at year end. The amount of encumbrances outstanding at June 30, 2008 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

A comparison of the actual results of operations to the budgeted amounts (at the level of control adopted by the City Council) for the General Fund and Major Special Revenue Funds is presented as required supplemental information. Information comparing other Special Revenue Funds activity to the respective budgets can be obtained at City Hall.

During the year, the City incurred expenditures over budgeted amounts as follows:

| | <u>Budget</u> | <u>Actual</u> |
|----------------------------|---------------|---------------|
| General Fund: | | |
| General government | \$ 1,310,100 | \$ 1,337,536 |
| Fire | 513,528 | 947,012 |
| Capital Improvement Fund - | | |
| Professional services | 123,500 | 175,453 |

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated three banks for the deposit of City funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bank accounts and CDs, and such obligations, bonds, and securities as permitted by the statutes of the State of Michigan.

The City's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$17.2 million of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The component unit has approximately \$18,000 of bank deposits that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Receivables

The City's receivables of governmental and business activities are as follows:

| | Governmental Activities | | | Total Governmental Activities | Total Business- type Activities |
|------------------------------|-------------------------|---------------------------------|--------------------------------|-------------------------------------|------------------------------------|
| | General Fund | 1996 Building Authority Fund | Nonmajor and Other Funds | | |
| Receivables: | | | | | |
| Customers | \$ 120,588 | \$ - | \$ - | \$ 120,588 | \$ 763,204 |
| Intergovernmental | 133,639 | - | 102,004 | 235,643 | - |
| South Lyon Community Schools | - | 412,155 | - | 412,155 | - |
| Total receivables | <u>\$ 254,227</u> | <u>\$ 412,155</u> | <u>\$ 102,004</u> | <u>\$ 768,386</u> | <u>\$ 763,204</u> |

The City considers all receivables to be collectible and has not recorded an allowance for doubtful accounts.

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds and governmental activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of payments not yet earned or received from South Lyon Community Schools (the "Schools") in relation to the lease agreement between the City and the Schools.

In a prior year, the South Lyon Building Authority, in cooperation with the City and the Schools, constructed a joint administrative building. The City entered into a lease agreement with the South Lyon Building Authority relating to the use of the administrative building. In addition, the Schools entered into a lease agreement with the City to sublease a portion of the building. Under the terms of these agreements, the City's and the Schools' rental payments will equal an amount sufficient to pay the debt service requirements and other related costs. The rental payments by the City and the Schools are based on the amount of allocated space utilized by each entity. As of June 30, 2008, the City's and the Schools' estimated share of the debt service was 41.95 percent and 58.05 percent, respectively.

Ownership of the land will be transferred at no cost to the Schools upon full payment and retirement of the bonds and the receipt of all rental payments by the City. However, the City has met the requirement to record the building as a capital lease and has accordingly recorded 41.95 percent of the cost and the debt balance in governmental activities.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Receivables (Continued)

As of June 30, 2008, the estimated future minimum lease payments to be received by the City from the Schools are as follows:

| | |
|------------------------------------|-------------------|
| 2009 | \$ 151,220 |
| 2010 | 150,495 |
| 2011 | <u>152,381</u> |
| Total | 454,096 |
| Less portion representing interest | <u>(41,941)</u> |
| Net | <u>\$ 412,155</u> |

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

| | Balance July 1, 2007 | Additions | Disposals and Adjustments | Balance June 30, 2008 | Depreciable Life - Years |
|---|-------------------------|-------------------|------------------------------|--------------------------|-----------------------------|
| Governmental Activities | | | | | |
| Capital assets not being depreciated - Land | \$ 3,207,804 | \$ - | \$ - | \$ 3,207,804 | - |
| Capital assets being depreciated: | | | | | |
| Roads and sidewalks | 20,661,610 | 449,758 | - | 21,111,368 | 20-25 |
| Buildings and improvements | 6,650,306 | 679,435 | - | 7,329,741 | 15-40 |
| Other tools, furniture, and equipment | <u>3,073,924</u> | <u>861,358</u> | <u>(145,053)</u> | <u>3,790,229</u> | 5-15 |
| Subtotal | 30,385,840 | 1,990,551 | (145,053) | 32,231,338 | |
| Accumulated depreciation: | | | | | |
| Roads and sidewalks | 4,913,536 | 888,214 | - | 5,801,750 | |
| Buildings and improvements | 1,536,552 | 242,065 | - | 1,778,617 | |
| Other tools and equipment | <u>2,360,770</u> | <u>311,531</u> | <u>(140,391)</u> | <u>2,531,910</u> | |
| Subtotal | <u>8,810,858</u> | <u>1,441,810</u> | <u>(140,391)</u> | <u>10,112,277</u> | |
| Net capital assets being depreciated | <u>21,574,982</u> | <u>548,741</u> | <u>(4,662)</u> | <u>22,119,061</u> | |
| Net capital assets | <u>\$ 24,782,786</u> | <u>\$ 548,741</u> | <u>\$ (4,662)</u> | <u>\$ 25,326,865</u> | |

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2007 | Additions | Disposals and Adjustments | Balance June 30, 2008 | Depreciable Life - Years |
|---|-------------------------|--------------|------------------------------|--------------------------|-----------------------------|
| Business-type Activities | | | | | |
| Capital assets not being depreciated - Land | \$ 147,317 | \$ - | \$ - | \$ 147,317 | - |
| Capital assets being depreciated: | | | | | |
| Wastewater treatment plant and equipment | 32,308,376 | 642,704 | - | 32,951,080 | 10-40 |
| Water treatment plant and equipment | 2,638,225 | 153,257 | - | 2,791,482 | 10-40 |
| Utility system, buildings, and improvements | 10,897,017 | - | - | 10,897,017 | 17-40 |
| Other tools, furniture, and equipment | 871,114 | 220,195 | - | 1,091,309 | 5-10 |
| Subtotal | 46,714,732 | 1,016,156 | - | 47,730,888 | |
| Accumulated depreciation | 13,303,071 | 1,325,428 | - | 14,628,499 | |
| Net capital assets being depreciated | 33,411,661 | (309,272) | - | 33,102,389 | |
| Net capital assets | \$ 33,558,978 | \$ (309,272) | \$ - | \$ 33,249,706 | |

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|------------------------|------------|
| General government | \$ 128,557 |
| Public safety | 197,879 |
| Public works | 1,060,910 |
| Recreation and culture | 54,464 |

Total governmental activities \$ 1,441,810

Business-type activities - Enterprise Fund - Water and Sewer Fund \$ 1,325,428

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Balances and Operating Transfers

The composition of interfund receivables and payables balances is as follows:

General Fund:

| | |
|---------------------------|--------------|
| Water and Wastewater Fund | \$ 42,735 |
| Major Road Fund | 6,377 |
| Local Road Fund | <u>6,367</u> |
| Total General Fund | 55,479 |

| | |
|--|--------------------------|
| Enterprise Fund - Water and Sewer Fund - Capital Improvement Fund | <u>595,455</u> |
| Total interfund receivables | <u><u>\$ 650,934</u></u> |

Interfund balances represent routine and temporary cash flow assistance.

The composition of operating transfers is as follows:

| <u>Operating Transfer Out</u> | <u>Operating Transfer In</u> | <u>Amount</u> |
|--|-------------------------------|--------------------------|
| Governmental funds: | | |
| 1991 Special Assessment | General Fund | \$ 16,572 |
| Capital Improvements Fund | Local Road Fund | 421,382 |
| Community Development Block Grant Fund | Capital Improvements Fund | 29,347 |
| General Fund | Land Acquisition Fund | <u>177,171</u> |
| Total transfers out of governmental funds | | 644,472 |
| Enterprise Funds - Water and Sewer Fund | 2000 G.O. Water Bonds Fund | <u>32,168</u> |
| Total operating transfers | | <u><u>\$ 676,640</u></u> |

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Balances and Operating Transfers (Continued)

The transfer from the Enterprise - Water and Sewer Fund to the Debt Service Fund provides for debt payments. Transfers from the Capital Improvements Fund and the Community Development Block Grant Fund to the governmental funds provide for capital improvements. The transfer from the Special Assessment Fund to the General Fund was made to move the remaining cash out of this fund, as the corresponding debt was retired during the current year. The transfer from the General Fund to the Land Acquisition Fund provides for the purchase of property.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

| | July 1, 2007 | Additions | Reductions | June 30, 2008 | Due Within One Year |
|---|----------------------|-------------------|---------------------|----------------------|------------------------|
| Governmental Activities | | | | | |
| General obligation bonds: | | | | | |
| 1996 Building Authority Bonds | \$ 920,000 | \$ - | \$ (210,000) | \$ 710,000 | \$ 225,000 |
| 1999 Building Authority Bonds | 955,000 | - | (60,000) | 895,000 | 65,000 |
| 2005 Building Authority Bonds | 335,000 | - | (25,000) | 310,000 | 25,000 |
| Compensated absences | 343,820 | - | (71,465) | 272,355 | 272,355 |
| Installment purchase agreements: | | | | | |
| 2000 fire truck installment contract | 178,703 | - | (56,420) | 122,283 | 59,511 |
| 2006 dump truck installment contract | 120,000 | - | (40,000) | 80,000 | 40,000 |
| 2008 fire truck installment contract | - | 460,770 | - | 460,770 | 62,364 |
| 2008 street sweeper installment contract | - | 135,000 | - | 135,000 | 32,828 |
| Total governmental activities | <u>\$ 2,852,523</u> | <u>\$ 595,770</u> | <u>\$ (462,885)</u> | <u>\$ 2,985,408</u> | <u>\$ 782,058</u> |
| Business-type Activities | | | | | |
| General obligation debt: | | | | | |
| 2000 Unlimited Tax Water Bonds | \$ 960,000 | \$ - | \$ (85,000) | \$ 875,000 | \$ 90,000 |
| 2003 State of Michigan Revolving Fund Loan | 16,206,151 | 209,831 | (690,000) | 15,725,982 | 710,000 |
| Total business-type activities | <u>\$ 17,166,151</u> | <u>\$ 209,831</u> | <u>\$ (775,000)</u> | <u>\$ 16,600,982</u> | <u>\$ 800,000</u> |

Note: The change in compensated absences is the net change to the liability during the year ended June 30, 2008.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Other information concerning long-term debt obligations is as follows:

| | Original Principal | Outstanding Debt June 30, 2008 | Interest Rate | Final Payment Date | Maturity Payment Ranges |
|--|-----------------------|--------------------------------------|------------------|--------------------------|----------------------------|
| Governmental Activities | | | | | |
| General obligation bonds: | | | | | |
| 1996 Building Authority Bonds | \$ 2,650,000 | \$ 710,000 | 5.00% | 05/01/2011 | \$225,000-\$250,000 |
| 1999 Building Authority Bonds | 1,370,000 | 895,000 | 4.80%-5.20% | 05/01/2019 | \$65,000-\$100,000 |
| 2005 Building Authority Bonds | 380,000 | 310,000 | 3.50%-4.10% | 05/01/2019 | \$25,000-\$35,000 |
| Installment purchase agreements: | | | | | |
| 2000 fire truck installment contract | 500,000 | 122,283 | 5.48% | 06/01/2010 | \$59,512-\$62,773 |
| 2006 dump truck installment contract | 200,000 | 80,000 | 3.75% | 04/01/2010 | \$40,000 |
| 2008 fire truck installment contract | 460,770 | 460,770 | 3.59% | 2/14/2015 | \$62,364-\$69,389 |
| 2008 street sweeper installment contract | <u>135,000</u> | <u>135,000</u> | 3.70% | 1/17/2012 | \$32,828-\$34,684 |
| Total governmental activities - Excluding compensated absences | <u>\$ 5,695,770</u> | 2,713,053 | | | |
| Compensated absences | | <u>272,355</u> | | | |
| Total governmental activities | | <u>\$ 2,985,408</u> | | | |
| Business-type Activities | | | | | |
| General obligation debt: | | | | | |
| 2000 Unlimited Tax Water Bonds | \$ 1,400,000 | \$ 875,000 | 4.60% - 5.20% | 09/01/2015 | \$90,000-\$130,000 |
| 2003 State of Michigan Revolving Fund Loan | <u>15,725,982</u> | <u>15,725,982</u> | 2.50% | 10/01/2025 | \$710,000-\$1,055,000 |
| Total business-type activities | <u>\$ 17,125,982</u> | <u>\$ 16,600,982</u> | | | |

The City has entered into an agreement with the State of Michigan to borrow up to \$17,250,000 from the State Revolving Fund in order to pay for the capital improvements to the City's waste-water treatment plant. Interest payments on the loan began in October 2003. The loan principal will be repaid over 20 years in annual installments that began in October 2006. As of June 30, 2008, the outstanding loan balance is \$15,725,982.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the City's long-term obligations, except compensated absences, are as follows:

| Fiscal Year Ending June 30 | Governmental Activities | | | Business-type Activities | | |
|----------------------------------|-------------------------|-------------------|---------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2009 | \$ 509,703 | \$ 124,086 | \$ 633,789 | \$ 800,000 | \$ 416,570 | \$ 1,216,570 |
| 2010 | 529,689 | 100,626 | 630,315 | 820,000 | 396,143 | 1,216,143 |
| 2011 | 443,677 | 76,115 | 519,792 | 845,000 | 370,910 | 1,215,910 |
| 2012 | 200,467 | 55,660 | 256,127 | 870,000 | 346,785 | 1,216,785 |
| 2013 | 166,963 | 47,352 | 214,315 | 890,000 | 321,910 | 1,211,910 |
| 2014 | 178,165 | 40,223 | 218,388 | 920,000 | 296,160 | 1,216,160 |
| 2015 | 184,389 | 32,586 | 216,975 | 945,000 | 269,473 | 1,214,473 |
| 2016 | 120,000 | 24,535 | 144,535 | 975,000 | 241,780 | 1,216,780 |
| 2017 | 120,000 | 18,655 | 138,655 | 865,000 | 216,775 | 1,081,775 |
| 2018 | 125,000 | 12,775 | 137,775 | 885,000 | 194,650 | 1,079,650 |
| 2019 | 135,000 | 6,635 | 141,635 | 910,000 | 171,900 | 1,081,900 |
| 2020 | - | - | - | 930,000 | 148,650 | 1,078,650 |
| 2021 | - | - | - | 955,000 | 124,775 | 1,079,775 |
| 2022 | - | - | - | 980,000 | 100,275 | 1,080,275 |
| 2023 | - | - | - | 1,005,000 | 75,150 | 1,080,150 |
| 2024 | - | - | - | 1,030,000 | 49,400 | 1,079,400 |
| 2025 | - | - | - | 1,055,000 | 23,025 | 1,078,025 |
| 2026 | - | - | - | 920,982 | - | 920,982 |
| Total | <u>\$ 2,713,053</u> | <u>\$ 539,248</u> | <u>\$ 3,252,301</u> | <u>\$ 16,600,982</u> | <u>\$ 3,764,331</u> | <u>\$ 20,365,313</u> |

Total interest incurred related to governmental activities for the year approximated \$163,000. Total interest incurred related to business-type activities for the year approximated \$398,000.

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for workers' compensation, medical, health, life, and disability claims, and participates in the Michigan Municipal League Liability and Property pool for claims relating to general law enforcement, emergency medical, public errors and omissions, and auto liabilities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Risk Management (Continued)

The Michigan Municipal League Liability and Property pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 9 - Defined Benefit Pension Plans

Plan Description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48197.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the City Council and negotiation with the competitive bargaining unit representing union employees. The plan does not require a contribution from employees. The employer contribution ranges from 10.70 percent to 14.69 percent of gross compensation based on the employee's classification. Pension benefits are based on 2.25 percent of the five-year final average compensation, with a maximum of 80 percent of final average compensation for all employees. Deferred retirement benefits vest after 10 years of service, but are not paid until the date retirement would have occurred had the member remained an employee.

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Defined Benefit Pension Plans (Continued)

Annual Pension Costs

For the year ended June 30, 2008, the City's annual pension cost amounted to \$329,222. The City's required contribution was equal to the annual pension cost as determined by the actuarial valuation. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost actuarial funding method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent to 12.9 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded liability is being amortized as a level percentage of payroll on a closed basis.

Three-year Trend Information

| | Fiscal Year Ended June 30 | | |
|---|---------------------------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| Annual pension costs (APC) | \$ 329,222 | \$ 319,995 | \$ 289,540 |
| Percentage of APC contributed | 100% | 100% | 100% |
| Net pension obligation | \$ - | \$ - | \$ - |
| | | | |
| | Actuarial Valuation as of December 31 | | |
| | 2007 | 2006 | 2005 |
| Actuarial value of assets | \$ 6,230,762 | \$ 5,645,947 | \$ 5,109,827 |
| Actuarial accrued liability | | | |
| (AAL) (entry) | \$ 8,026,181 | \$ 7,484,995 | \$ 6,936,238 |
| Unfunded AAL (UAAL) | \$ 1,795,419 | \$ 1,839,048 | \$ 1,826,411 |
| Funded ratio | 77.6% | 75.4% | 73.7% |
| Covered payroll | \$ 2,719,636 | \$ 2,697,025 | \$ 2,580,549 |
| UAAL as a percentage of covered payroll | 66.0% | 68.2% | 70.8% |

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 10 - Joint Ventures

The City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County (RRRASOC) and the South Lyon Area Recreation Council (SLARC). RRRASOC is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, and Wixom and the Charter Township of Lyon. SLARC is incorporated by the City of South Lyon and the Charter Townships of Lyon and Green Oak. The City appoints one member to each of the joint ventures' governing boards, which then approve the annual budgets. The joint ventures receive their operating revenue from member contributions and miscellaneous income. During the current year, the City contributed the following amounts:

| Entity | Contribution |
|---------|--------------|
| RRRASOC | \$ 14,694 |
| SLARC | 29,213 |

The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for RRRASOC can be obtained from RRRASOC's office at 20000 West 8 Mile Road, Southfield, Michigan 48075, and for SLARC at SLARC's office at 318 W. Lake Street, South Lyon, MI 48178.

Note 11 - Restricted Net Assets

Net assets have been restricted for the following purposes:

| Restricted for | Governmental Activities | Business-type Activities |
|-----------------------------|----------------------------|-----------------------------|
| Road improvements | \$ 898,890 | \$ - |
| Law enforcement | 51,452 | - |
| Cemetery | 675,710 | - |
| Debt service | 224,150 | - |
| Water and sewer replacement | - | 6,059,873 |
| State Revolving Fund loan | - | 1,663,653 |
| Total | <u>\$ 1,850,202</u> | <u>\$ 7,723,526</u> |

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

| | |
|--------------------------------------|----------------------------|
| Building permit revenue | \$ 67,336 |
| Related expenses: | |
| Direct costs | (257,568) |
| Estimated indirect costs | <u>(21,000)</u> |
| Total construction code expenses | <u>(278,568)</u> |
| Shortfall | (211,232) |
| Cumulative shortfall - July 1, 2007 | <u>(665,793)</u> |
| Cumulative shortfall - June 30, 2008 | <u><u>\$ (877,025)</u></u> |

Note 13 - Capital Improvements Fund Expenditures

The expenditures of the Capital Improvements Fund for the year ended June 30, 2008 are as follows:

| | |
|--|--------------------------|
| Professional services: | |
| South West Rail Connector | \$ 98,654 |
| Lake/Whipple Alleyway improvements | 13,325 |
| Streetscape | 63,060 |
| Other | <u>414</u> |
| Total professional services | \$ 175,453 |
| Construction - Whipple Street sidewalk | 42,735 |
| Transfers to Local Street Fund | <u>421,382</u> |
| Total Capital Improvement Fund expenditures and transfers | <u><u>\$ 639,570</u></u> |

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 14 - Segment Information

The City maintains one Enterprise Fund that provides water and sewer services and refuse collection service. Segment information for the year ended June 30, 2008 is as follows:

Condensed Statement of Net Assets

| | Water and Sewer | Refuse Collection |
|--|--------------------|----------------------|
| Assets: | | |
| Current | \$ 1,975,384 | \$ 1,875 |
| Noncurrent | 40,973,232 | - |
| Total assets | 42,948,616 | 1,875 |
| Liabilities: | | |
| Current | 1,407,929 | - |
| Noncurrent | 15,800,982 | - |
| Total liabilities | 17,208,911 | - |
| Net assets: | | |
| Invested in capital assets - Net of related debt | 16,648,724 | - |
| Restricted | 7,723,526 | - |
| Unrestricted | 1,367,455 | 1,875 |
| Total net assets | \$ 25,739,705 | \$ 1,875 |

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

| | Water and Sewer | Refuse Collection |
|----------------------------|--------------------|----------------------|
| Operating revenues | \$ 1,912,599 | \$ 455,758 |
| Operating expenses | 3,134,435 | 454,213 |
| Operating (loss) income | (1,221,836) | 1,545 |
| Nonoperating revenue | 1,352,794 | - |
| Other financing uses | (32,168) | - |
| Capital contributions | 215,640 | - |
| Changes in net assets | 314,430 | 1,545 |
| Net assets - July 1, 2007 | 25,425,275 | 330 |
| Net assets - June 30, 2008 | \$ 25,739,705 | \$ 1,875 |

City of South Lyon, Michigan

Notes to Financial Statements June 30, 2008

Note 14 - Segment Information (Continued)

Condensed Statement of Cash Flows

| | Water and Sewer | Refuse Collection |
|--|--------------------|----------------------|
| Cash flows from operating activities | \$ 104,043 | \$ - |
| Cash flows from capital and related financing activities | - | - |
| Cash flows from investing activities | - | - |
| Net increase in cash and cash equivalents | 104,043 | - |
| Cash and cash equivalents - July 1, 2007 | - | - |
| Cash and cash equivalents - June 30, 2008 | <u>\$ 104,043</u> | <u>\$ -</u> |

Note 15 - Other Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, two retirees are eligible. The City provides a monthly stipend to be used to supplement the insurance cost for postemployment healthcare benefits. The expense is recognized by the City as the payments to the employees are made; during the year, this amounted to \$5,500.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Required Supplemental Information

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------------|
| Revenue | | | | |
| Property taxes | \$ 3,524,743 | \$ 3,524,743 | \$ 3,521,056 | \$ (3,687) |
| State-shared revenue | 878,800 | 878,800 | 847,606 | (31,194) |
| Licenses and permits | 75,000 | 75,000 | 56,264 | (18,736) |
| Charges for services | 307,000 | 307,000 | 333,746 | 26,746 |
| Fines and forfeitures | 42,500 | 42,500 | 25,711 | (16,789) |
| Interest | 160,000 | 160,000 | 140,568 | (19,432) |
| Other: | | | | |
| Sundry | - | - | 71,967 | - |
| Police | - | - | 25,398 | - |
| Rentals | - | - | 12,455 | - |
| Board of appeals | - | - | 2,400 | - |
| Refunds for cost of arrests | - | - | 2,250 | - |
| Miscellaneous | - | - | 57 | - |
| Total other | 140,000 | 140,000 | 114,527 | (25,473) |
| Proceeds from issuance of long-term debt | - | - | 460,770 | 460,770 |
| Transfers from other funds | 10,000 | 10,000 | 16,572 | 6,572 |
| Total revenue | 5,138,043 | 5,138,043 | 5,536,528 | 398,485 |
| Expenditures | | | | |
| General government | 1,346,600 | 1,310,100 | 1,337,536 | 27,436 |
| Police | 2,315,769 | 2,315,769 | 2,277,757 | (38,012) |
| Fire | 513,528 | 513,528 | 947,012 | 433,484 |
| Ambulance | 3,075 | 3,075 | 1,994 | (1,081) |
| Cemetery | 85,700 | 85,700 | 73,380 | (12,320) |
| DPW | 859,890 | 859,890 | 773,366 | (86,524) |
| Parks and recreation | 111,130 | 111,130 | 75,587 | (35,543) |
| Senior transportation | 50,000 | 50,000 | 50,000 | - |
| Historical depot | 48,900 | 48,900 | 34,739 | (14,161) |
| Contingencies | 10,000 | 10,000 | - | (10,000) |
| Transfers to other funds | 177,200 | 177,200 | 177,171 | (29) |
| Total expenditures | 5,521,792 | 5,485,292 | 5,748,542 | 263,250 |
| Excess of Expenditures Over Revenue | (383,749) | (347,249) | (212,014) | 135,235 |
| Fund Balance - July 1, 2007 | 3,337,923 | 3,337,923 | 3,337,923 | - |
| Fund Balance - June 30, 2008 | <u>\$ 2,954,174</u> | <u>\$ 2,990,674</u> | <u>\$ 3,125,909</u> | <u>\$ 135,235</u> |

City of South Lyon, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Fund Capital Improvements Fund Year Ended June 30, 2008

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|---------------------|---------------------|---------------------|---------------------------------------|
| Revenue | | | | |
| Property taxes | \$ 814,138 | \$ 814,138 | \$ 815,669 | \$ 1,531 |
| Grants | 260,078 | 260,078 | 29,347 | (230,731) |
| Interest and other | 527,178 | 527,178 | 122,031 | (405,147) |
| Total revenue | 1,601,394 | 1,601,394 | 967,047 | (634,347) |
| Expenditures | | | | |
| Professional services | 123,500 | 123,500 | 175,453 | 51,953 |
| Construction expense | 984,285 | 984,285 | 42,735 | (941,550) |
| Contribution - Wastewater Bonds | 1,313,200 | - | - | - |
| Transfers to other funds | 771,200 | 672,700 | 421,382 | (251,318) |
| Total expenditures | 3,192,185 | 1,780,485 | 639,570 | (1,140,915) |
| Excess of Revenue Over (Under) Expenditures | (1,590,791) | (179,091) | 327,477 | 506,568 |
| Fund Balance - July 1, 2007 | 2,990,196 | 2,990,196 | 2,990,196 | - |
| Fund Balance - June 30, 2008 | <u>\$ 1,399,405</u> | <u>\$ 2,811,105</u> | <u>\$ 3,317,673</u> | <u>\$ 506,568</u> |

Other Supplemental Information

City of South Lyon, Michigan

| | General | Public Safety | | |
|-------------------------------------|---------------------|---------------------|-------------------|-----------------|
| | | Police | Fire | Ambulance |
| Expenditures | Government | | | |
| Salaries and wages | \$ 573,854 | \$ 1,362,437 | \$ 65 | \$ - |
| Salaries and wages - Mechanic | - | - | - | - |
| Reimbursement of mechanic wages | - | - | - | - |
| Fringe benefits: | | | | |
| Payroll taxes and insurance | 235,727 | 553,435 | 23,033 | - |
| Uniforms | - | 16,200 | 8,260 | - |
| Education and training | 3,269 | (1,343) | 7,415 | - |
| Total fringe benefits | 238,996 | 568,292 | 38,708 | - |
| Operating expense | 27,945 | 15,128 | 11,675 | - |
| Office supplies | 5,272 | 3,718 | 6,411 | - |
| Printing | 4,530 | - | - | - |
| Publishing | 6,898 | - | - | - |
| Professional services | 42,513 | 11,436 | - | - |
| Contractual services | 77,774 | - | - | - |
| Audit | 33,350 | - | - | - |
| Planning consultant | 7,140 | - | - | - |
| Elections | 7,880 | - | - | - |
| Legal fees | 60,506 | 30,153 | - | - |
| Dues and memberships | 13,733 | 415 | 2,061 | - |
| Telephone | 5,037 | 14,551 | 11,052 | - |
| Conference and travel | 7,603 | 115 | - | - |
| Insurance and bonds | 47,991 | 21,730 | 20,536 | 69 |
| Utilities | 18,644 | 13,914 | 10,302 | 1,925 |
| Maintenance: | | | | |
| Building | 19,051 | 5,524 | 11,695 | - |
| General | - | 11,820 | 6,411 | - |
| Vehicle | 4,373 | 20,361 | 53,859 | - |
| Radio | - | 1,371 | 4,701 | - |
| Gas and oil | - | 31,607 | 5,627 | - |
| Sundry | - | 78 | - | - |
| Community promotions | 105,142 | - | - | - |
| Capital improvements | - | 111,101 | - | - |
| Land beautification | 10,157 | - | - | - |
| Equipment purchases | - | 3,803 | 9,421 | - |
| Computer purchases | 4,453 | - | - | - |
| Capital expenditures | - | - | 460,770 | - |
| Land improvements | - | - | - | - |
| Recycling charges | 14,694 | - | - | - |
| Debt service principal | - | - | 56,420 | - |
| Debt service interest | - | - | 6,020 | - |
| Ammunition | - | 2,795 | - | - |
| South Lyon Firefighters Association | - | - | 194,883 | - |
| Radio dispatching | - | 47,408 | 11,345 | - |
| Equipment rental | - | - | 25,050 | - |
| Traffic and street lights | - | - | - | - |
| Total expenditures | <u>\$ 1,337,536</u> | <u>\$ 2,277,757</u> | <u>\$ 947,012</u> | <u>\$ 1,994</u> |

Other Supplemental Information
Schedule of Expenditures
General Fund
Year Ended June 30, 2008

| Community Maintenance and Development | | Culture and Recreation | | | Year Ended June 30 | |
|--|-------------------|-------------------------|--------------------------|---------------------|---------------------|---------------------|
| Cemetery | Public Works | Parks and Recreation | Senior Transportation | Historical Depot | 2008 | 2007 |
| \$ 21,941 | \$ 173,150 | \$ 39,971 | \$ - | \$ - | \$ 2,171,418 | \$ 2,077,265 |
| - | 37,560 | - | - | - | 37,560 | 32,077 |
| - | (37,560) | - | - | - | (37,560) | (32,077) |
| 10,203 | 162,819 | 12,350 | - | - | 997,567 | 940,161 |
| - | 4,914 | - | - | - | 29,374 | 30,009 |
| - | 2,540 | - | - | - | 11,881 | 15,545 |
| 10,203 | 170,273 | 12,350 | - | - | 1,038,822 | 985,715 |
| 7,850 | 31,159 | 10,795 | - | - | 104,552 | 101,707 |
| - | 683 | - | - | - | 16,084 | 22,391 |
| - | - | - | - | - | 4,530 | 4,226 |
| - | - | - | - | - | 6,898 | 4,998 |
| 30,167 | 2,607 | - | - | - | 86,723 | 68,217 |
| - | - | - | - | - | 77,774 | 81,162 |
| - | - | - | - | - | 33,350 | 38,069 |
| - | - | - | - | - | 7,140 | 5,500 |
| - | - | - | - | - | 7,880 | 7,980 |
| - | - | - | - | - | 90,659 | 94,427 |
| - | - | - | - | - | 16,209 | 16,118 |
| - | 2,453 | - | - | - | 33,093 | 32,389 |
| - | 100 | - | - | - | 7,818 | 7,054 |
| 573 | 12,928 | 840 | - | 815 | 105,482 | 95,865 |
| 532 | 24,599 | 1,347 | 50,000 | 8,384 | 129,647 | 130,620 |
| - | 36,810 | - | - | 6,975 | 80,055 | 68,979 |
| 820 | - | 7,085 | - | 98 | 26,234 | 31,874 |
| - | 115,412 | - | - | - | 194,005 | 169,994 |
| - | - | - | - | - | 6,072 | 5,998 |
| - | 45,294 | - | - | - | 82,528 | 60,967 |
| - | - | 618 | - | - | 696 | 4,242 |
| - | - | 65 | - | 5,185 | 110,392 | 136,829 |
| - | - | - | - | 10,164 | 121,265 | 70,086 |
| - | - | - | - | - | 10,157 | 11,124 |
| 1,294 | 4,076 | 2,516 | - | - | 21,110 | 49,970 |
| - | - | - | - | - | 4,453 | 3,822 |
| - | - | - | - | - | 460,770 | - |
| - | 40,917 | - | - | 3,118 | 44,035 | 16,788 |
| - | - | - | - | - | 14,694 | 14,809 |
| - | - | - | - | - | 56,420 | 53,489 |
| - | - | - | - | - | 6,020 | 7,868 |
| - | - | - | - | - | 2,795 | 2,860 |
| - | - | - | - | - | 194,883 | 194,453 |
| - | - | - | - | - | 58,753 | 54,280 |
| - | 20,000 | - | - | - | 45,050 | 45,050 |
| - | 92,905 | - | - | - | 92,905 | 100,787 |
| \$ 73,380 | \$ 773,366 | \$ 75,587 | \$ 50,000 | \$ 34,739 | \$ 5,571,371 | \$ 4,877,972 |

City of South Lyon, Michigan

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WILL BE CORRECT.**

City of South Lyon, Michigan

Other Supplemental Information Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Combining Balance Sheet Year Ended June 30, 2008

| | Special Revenue Funds | Debt Service Funds | Total Nonmajor Governmental Funds |
|---|-----------------------------|------------------------|--|
| Assets | | | |
| Cash and cash equivalents | \$ 1,751,757 | \$ 8,119 | \$ 1,759,876 |
| Due from other governmental units | 102,004 | - | 102,004 |
| Other current assets | 11,157 | - | 11,157 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u><u>\$ 1,864,918</u></u> | <u><u>\$ 8,119</u></u> | <u><u>\$ 1,873,037</u></u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable | \$ 16,711 | \$ - | \$ 16,711 |
| Accrued and other liabilities | 4,166 | - | 4,166 |
| Due to other funds | 12,744 | - | 12,744 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities | 33,621 | - | 33,621 |
| Fund Balances | | | |
| Reserved for future cemetery expenditures | 675,710 | - | 675,710 |
| Unreserved: | | | |
| Designated | 56,503 | 6,900 | 63,403 |
| Undesignated | 1,099,084 | 1,219 | 1,100,303 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total fund balances | 1,831,297 | 8,119 | 1,839,416 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u><u>\$ 1,864,918</u></u> | <u><u>\$ 8,119</u></u> | <u><u>\$ 1,873,037</u></u> |

City of South Lyon, Michigan

Other Supplemental Information Nonmajor Governmental Funds Special Revenue Funds and Debt Service Funds (Combined) Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

| | Special Revenue Funds | Debt Service Funds | Total Nonmajor Governmental Funds |
|---|-----------------------------|--------------------------|--|
| Revenues | | | |
| Property taxes | \$ 48,924 | \$ - | \$ 48,924 |
| Federal sources | 29,347 | - | 29,347 |
| State sources | 485,440 | - | 485,440 |
| Charges for services | 54,000 | - | 54,000 |
| Interest and other | 135,158 | 324 | 135,482 |
| Total revenues | 752,869 | 324 | 753,193 |
| Expenditures | | | |
| Community maintenance and development: | | | |
| Professional services: | | | |
| Major Street Paving Program | 2,847 | - | 2,847 |
| Local Street Paving Program | 198,870 | - | 198,870 |
| Other | 4,450 | - | 4,450 |
| Construction: | | | |
| Major Street Paving Program | 8,528 | - | 8,528 |
| Local Street Paving Program | 236,681 | - | 236,681 |
| Street routine maintenance | 235,728 | - | 235,728 |
| Traffic services | 18,861 | - | 18,861 |
| Snow plowing | 142,638 | - | 142,638 |
| Drainage and backslowing | 11,637 | - | 11,637 |
| Total community maintenance and development | 860,240 | - | 860,240 |
| Capital outlay | 666,867 | - | 666,867 |
| Interest and fiscal charges | 46,695 | 45,427 | 92,122 |
| Total expenditures | 1,573,802 | 45,427 | 1,619,229 |
| Excess of Expenditures Over Revenues | (820,933) | (45,103) | (866,036) |
| Other Financing Sources (Uses) | | | |
| Operating transfers in | 598,553 | 15,596 | 614,149 |
| Operating transfers out | (29,347) | - | (29,347) |
| Proceeds from long-term debt | 135,000 | - | 135,000 |
| Total other financing sources | 704,206 | 15,596 | 719,802 |
| Net Change in Fund Balances | (116,727) | (29,507) | (146,234) |
| Fund Balances - July 1, 2007 | 1,948,024 | 37,626 | 1,985,650 |
| Fund Balances - June 30, 2008 | <u>\$ 1,831,297</u> | <u>\$ 8,119</u> | <u>\$ 1,839,416</u> |

City of South Lyon, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Special Revenue Funds June 30, 2008

| | Major Road | Local Road | Community Development Block Grant | Equipment Replacement | Drug Forfeiture | Land Acquisition | Cemetery Perpetual Care | Total Nonmajor Special Revenue Funds |
|---|-------------------|-------------------|---|--------------------------|--------------------|---------------------|-------------------------------|--|
| Assets | | | | | | | | |
| Cash and cash equivalents | \$ 718,394 | \$ 100,956 | \$ - | \$ 145,700 | \$ 51,452 | \$ 59,545 | \$ 675,710 | \$ 1,751,757 |
| Due from other governmental units | 77,620 | 24,384 | - | - | - | - | - | 102,004 |
| Other current assets | 5,891 | 5,266 | - | - | - | - | - | 11,157 |
| Total assets | <u>\$ 801,905</u> | <u>\$ 130,606</u> | <u>\$ -</u> | <u>\$ 145,700</u> | <u>\$ 51,452</u> | <u>\$ 59,545</u> | <u>\$ 675,710</u> | <u>\$ 1,864,918</u> |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities | | | | | | | | |
| Accounts payable | \$ 515 | \$ 16,196 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 16,711 |
| Accrued and other liabilities | 2,086 | 2,080 | - | - | - | - | - | 4,166 |
| Due to other funds | 6,377 | 6,367 | - | - | - | - | - | 12,744 |
| Total liabilities | 8,978 | 24,643 | - | - | - | - | - | 33,621 |
| Fund Balances | | | | | | | | |
| Reserved for future cemetery expenditures | - | - | - | - | - | - | 675,710 | 675,710 |
| Unreserved: | | | | | | | | |
| Designated for subsequent year's expenditures | - | 30,675 | - | 25,828 | - | - | - | 56,503 |
| Undesignated | 792,927 | 75,288 | - | 119,872 | 51,452 | 59,545 | - | 1,099,084 |
| Total fund balances | 792,927 | 105,963 | - | 145,700 | 51,452 | 59,545 | 675,710 | 1,831,297 |
| Total liabilities and fund balances | <u>\$ 801,905</u> | <u>\$ 130,606</u> | <u>\$ -</u> | <u>\$ 145,700</u> | <u>\$ 51,452</u> | <u>\$ 59,545</u> | <u>\$ 675,710</u> | <u>\$ 1,864,918</u> |

City of South Lyon, Michigan

| | Major Road | Local Road | Community Development Block Grant | Equipment Replacement |
|---|-------------------|-------------------|---|--------------------------|
| Revenues | | | | |
| Property taxes | \$ - | \$ - | \$ - | \$ - |
| Federal sources | - | - | 29,347 | - |
| State sources | 335,335 | 150,105 | - | - |
| Charges for services | - | - | - | 54,000 |
| Metro Authority | 22,976 | - | - | - |
| Interest and other | 20,720 | 4,724 | - | 15,577 |
| Total revenues | 379,031 | 154,829 | 29,347 | 69,577 |
| Expenditures | | | | |
| Community maintenance and development: | | | | |
| Professional services: | | | | |
| Major Street Paving Program | 2,847 | - | - | - |
| Local Street Paving Program | - | 198,870 | - | - |
| Other | 2,225 | 2,225 | - | - |
| Construction: | | | | |
| Major Street Paving Program | 8,528 | - | - | - |
| Local Street Paving Program | - | 236,681 | - | - |
| Street routine maintenance | 123,565 | 112,163 | - | - |
| Traffic services | 14,001 | 4,860 | - | - |
| Snow plowing | 85,608 | 57,030 | - | - |
| Drainage and backsloping | 6,291 | 5,346 | - | - |
| Total community maintenance and development | 243,065 | 617,175 | - | - |
| Capital outlay and debt service | - | - | - | 214,696 |
| Interest | - | - | - | 46,695 |
| Total expenditures | 243,065 | 617,175 | - | 261,391 |
| Excess of Revenues Over (Under) Expenditures | 135,966 | (462,346) | 29,347 | (191,814) |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | - | 421,382 | - | - |
| Operating transfers out | - | - | (29,347) | - |
| Proceeds from issuance of long-term debt | - | - | - | 135,000 |
| Total other financing sources (uses) | - | 421,382 | (29,347) | 135,000 |
| Net Change in Fund Balances | 135,966 | (40,964) | - | (56,814) |
| Fund Balances - July 1, 2007 | 656,961 | 146,927 | - | 202,514 |
| Fund Balances - June 30, 2008 | <u>\$ 792,927</u> | <u>\$ 105,963</u> | <u>\$ -</u> | <u>\$ 145,700</u> |

**Other Supplemental Information
Nonmajor Special Revenue Funds
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Year Ended June 30, 2008**

| Drug Forfeiture | Land Acquisition | Cemetery Perpetual Care | Total Nonmajor Special Revenue Funds |
|--------------------|---------------------|-------------------------------|---|
| \$ - | \$ 48,924 | \$ - | \$ 48,924 |
| - | - | - | 29,347 |
| - | - | - | 485,440 |
| - | - | - | 54,000 |
| - | - | - | 22,976 |
| 1,436 | 12,264 | 57,461 | 112,182 |
| 1,436 | 61,188 | 57,461 | 752,869 |
| - | - | - | 2,847 |
| - | - | - | 198,870 |
| - | - | - | 4,450 |
| - | - | - | 8,528 |
| - | - | - | 236,681 |
| - | - | - | 235,728 |
| - | - | - | 18,861 |
| - | - | - | 142,638 |
| - | - | - | 11,637 |
| - | - | - | 860,240 |
| - | 452,171 | - | 666,867 |
| - | - | - | 46,695 |
| - | 452,171 | - | 1,573,802 |
| 1,436 | (390,983) | 57,461 | (820,933) |
| - | 177,171 | - | 598,553 |
| - | - | - | (29,347) |
| - | - | - | 135,000 |
| - | 177,171 | - | 704,206 |
| 1,436 | (213,812) | 57,461 | (116,727) |
| 50,016 | 273,357 | 618,249 | 1,948,024 |
| \$ 51,452 | \$ 59,545 | \$ 675,710 | \$ 1,831,297 |

City of South Lyon, Michigan

Other Supplemental Information Schedule of Expenditures by Activity Major and Local Road Funds Year Ended June 30, 2008

Major Road Fund

| | Professional Services | Street Construction | Street Routine Maintenance | Traffic Services | Snow Plowing | Drainage and Backsloping | Total |
|-------------------------|--------------------------|------------------------|----------------------------------|---------------------|------------------|--------------------------------|-------------------|
| Wages and salaries | \$ - | \$ - | \$ 61,706 | \$ 1,993 | \$ 39,750 | \$ 2,070 | \$ 105,519 |
| Fringe benefits | - | - | 33,938 | 1,157 | 20,441 | 1,061 | 56,597 |
| Operating expense | - | - | 653 | 768 | 25,417 | 3,160 | 29,998 |
| Professional services | 2,847 | - | - | - | - | - | 2,847 |
| Other | 2,225 | - | - | - | - | - | 2,225 |
| Traffic signals | - | - | - | 10,083 | - | - | 10,083 |
| Repairs and maintenance | - | - | 4,089 | - | - | - | 4,089 |
| Equipment rental | - | - | 23,125 | - | - | - | 23,125 |
| Insurance | - | - | 54 | - | - | - | 54 |
| Construction | - | 8,528 | - | - | - | - | 8,528 |
| Total expenditures | <u>\$ 5,072</u> | <u>\$ 8,528</u> | <u>\$ 123,565</u> | <u>\$ 14,001</u> | <u>\$ 85,608</u> | <u>\$ 6,291</u> | <u>\$ 243,065</u> |

Local Road Fund

| | | | | | | | |
|-------------------------|-------------------|-------------------|-------------------|-----------------|------------------|-----------------|-------------------|
| Wages and salaries | \$ - | \$ - | \$ 57,610 | \$ 1,937 | \$ 28,813 | \$ 1,992 | \$ 90,352 |
| Fringe benefits | - | - | 31,829 | 1,498 | 14,531 | 1,112 | 48,970 |
| Operating expense | - | - | 352 | 1,425 | 13,686 | 2,242 | 17,705 |
| Professional services | 198,870 | - | - | - | - | - | 198,870 |
| Other | 2,225 | - | - | - | - | - | 2,225 |
| Repairs and maintenance | - | - | 3,194 | - | - | - | 3,194 |
| Equipment rental | - | - | 19,125 | - | - | - | 19,125 |
| Insurance | - | - | 53 | - | - | - | 53 |
| Construction | - | 236,681 | - | - | - | - | 236,681 |
| Total expenditures | <u>\$ 201,095</u> | <u>\$ 236,681</u> | <u>\$ 112,163</u> | <u>\$ 4,860</u> | <u>\$ 57,030</u> | <u>\$ 5,346</u> | <u>\$ 617,175</u> |

City of South Lyon, Michigan

Other Supplemental Information Nonmajor Debt Service Funds Combining Balance Sheet June 30, 2008

| | 1991 Special Assessment | 2000 General Obligation Water Bonds | Total Nonmajor Debt Service Funds |
|--|----------------------------|---|---|
| Assets - Cash and cash equivalents | \$ - | \$ 8,119 | \$ 8,119 |
| Fund Balances - Unreserved | | | |
| Designated for subsequent year's expenditures | \$ - | \$ 6,900 | \$ 6,900 |
| Undesignated | - | 1,219 | 1,219 |
| Total fund balances | \$ - | \$ 8,119 | \$ 8,119 |

City of South Lyon, Michigan

Other Supplemental Information Nonmajor Debt Service Funds Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

| | 1991 Special Assessment | 2000 General Obligation Water Bonds | Total Nonmajor Debt Service Funds |
|---|----------------------------|---|--|
| Revenues - Interest and other | \$ 164 | \$ 160 | \$ 324 |
| Expenditures - Interest and fiscal charges | - | 45,427 | 45,427 |
| Excess of Revenues Over (Under) Expenditures | 164 | (45,267) | (45,103) |
| Other Financing Sources - Transfers in (out) | (16,572) | 32,168 | 15,596 |
| Net Change in Fund Balances | (16,408) | (13,099) | (29,507) |
| Fund Balances - July 1, 2007 | 16,408 | 21,218 | 37,626 |
| Fund Balances - June 30, 2008 | <u>\$ -</u> | <u>\$ 8,119</u> | <u>\$ 8,119</u> |

City of South Lyon, Michigan

| | Major Debt Service Fund | | | |
|---|----------------------------|----------------------------|----------------------------|----------------------------------|
| | 1996 Building Authority | 1999 Building Authority | 2005 Building Authority | Total Building Authority Fund |
| Assets | | | | |
| Cash and cash equivalents | \$ 173,771 | \$ 42,260 | \$ - | \$ 216,031 |
| Due from other funds | - | - | - | - |
| Due from other governmental units | 412,155 | - | - | 412,155 |
| Total assets | <u>\$ 585,926</u> | <u>\$ 42,260</u> | <u>\$ -</u> | <u>\$ 628,186</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities - Deferred revenue | \$ 412,155 | \$ - | \$ - | \$ 412,155 |
| Fund Balances - Unreserved | | | | |
| Designated for subsequent year's expenditures | - | - | - | - |
| Undesignated | 173,771 | 42,260 | - | 216,031 |
| Total fund balances | 173,771 | 42,260 | - | 216,031 |
| Total liabilities and fund balances | <u>\$ 585,926</u> | <u>\$ 42,260</u> | <u>\$ -</u> | <u>\$ 628,186</u> |

**Other Supplemental Information
Summary of Debt Service Activity
Assets, Liabilities, and Fund Balances
Year Ended June 30, 2008**

| Nonmajor Debt Service Funds | | Enterprise Fund Debt | |
|-----------------------------|---|--------------------------------------|---------------------|
| 1991 Special Assessment | 2000 General Obligation Water Bonds | 2003 State Revolving Fund Loan | Total |
| \$ - | \$ 8,119 | 1,068,198 | \$ 1,292,348 |
| - | - | 595,455 | 595,455 |
| - | - | - | 412,155 |
| <u>\$ -</u> | <u>\$ 8,119</u> | <u>\$ 1,663,653</u> | <u>\$ 2,299,958</u> |
| | | | |
| \$ - | \$ - | \$ - | \$ 412,155 |
| - | 6,900 | - | 6,900 |
| - | 1,219 | 1,663,653 | 1,880,903 |
| - | 8,119 | 1,663,653 | 1,887,803 |
| <u>\$ -</u> | <u>\$ 8,119</u> | <u>\$ 1,663,653</u> | <u>\$ 2,299,958</u> |

City of South Lyon, Michigan

| | Major Debt Service Fund | | | |
|--|----------------------------|----------------------------|----------------------------|----------------------------------|
| | 1996 Building Authority | 1999 Building Authority | 2005 Building Authority | Total Building Authority Fund |
| Revenues | | | | |
| Property taxes | \$ 114,163 | \$ 110,112 | \$ - | \$ 224,275 |
| Local sources | 148,608 | - | 37,785 | 186,393 |
| Interest | 6,302 | 1,988 | - | 8,290 |
| Total revenue | 269,073 | 112,100 | 37,785 | 418,958 |
| Expenditures | | | | |
| Debt principal payments | 210,000 | 60,000 | 25,000 | 295,000 |
| Interest and fiscal charges | 46,325 | 48,783 | 12,785 | 107,893 |
| Total expenditures | 256,325 | 108,783 | 37,785 | 402,893 |
| Excess of Revenue Over (Under) Expenditures | 12,748 | 3,317 | - | 16,065 |
| Other Financing Sources (Uses) | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| Total other financing sources (uses) | - | - | - | - |
| Net Change in Fund Balances | 12,748 | 3,317 | - | 16,065 |
| Fund Balances - July 1, 2007 | 161,023 | 38,943 | - | 199,966 |
| Fund Balances - June 30, 2008 | <u>\$ 173,771</u> | <u>\$ 42,260</u> | <u>\$ -</u> | <u>\$ 216,031</u> |

**Other Supplemental Information
Summary of Debt Service Activity
Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2008**

| Nonmajor Debt Service Funds | | Enterprise Fund Debt | |
|-----------------------------|---|-----------------------------------|---------------------|
| 1991 Special Assessment | 2000 General Obligation Water Bonds | 2003 State Revolving Fund Loan | Total |
| \$ - | \$ - | \$ 1,016,672 | \$ 1,240,947 |
| - | - | - | 186,393 |
| <u>164</u> | <u>160</u> | <u>38,440</u> | <u>47,054</u> |
| 164 | 160 | 1,055,112 | 1,474,394 |
| - | - | 690,000 | 985,000 |
| <u>-</u> | <u>45,427</u> | <u>397,461</u> | <u>550,781</u> |
| - | 45,427 | 1,087,461 | 1,535,781 |
| 164 | (45,267) | (32,349) | (61,387) |
| - | 32,168 | - | 32,168 |
| <u>(16,572)</u> | <u>-</u> | <u>-</u> | <u>(16,572)</u> |
| (16,572) | 32,168 | - | 15,596 |
| (16,408) | (13,099) | (32,349) | (45,791) |
| <u>16,408</u> | <u>21,218</u> | <u>1,696,002</u> | <u>1,933,594</u> |
| <u>\$ -</u> | <u>\$ 8,119</u> | <u>\$ 1,663,653</u> | <u>\$ 1,887,803</u> |

City of South Lyon, Michigan

| | Activity | | |
|---|---------------------------------|-------------------------|----------------------------|
| | Water Distribution System | Water Repair | Wastewater System |
| Personnel services: | | | |
| Salaries and wages | \$ 153,340 | \$ 46,367 | \$ 362,310 |
| Fringe benefits | <u>134,044</u> | <u>13,992</u> | <u>182,355</u> |
| Total personnel services | 287,384 | 60,359 | 544,665 |
| Equipment repairs and maintenance: | | | |
| Equipment maintenance | 15,005 | 4,064 | 4,831 |
| Building maintenance | <u>13,134</u> | <u>-</u> | <u>105,345</u> |
| Total equipment repairs and maintenance | 28,139 | 4,064 | 110,176 |
| Public utilities: | | | |
| Gas | 5,923 | - | 78,998 |
| Electric | 107,020 | - | 214,967 |
| Telephone | <u>5,487</u> | <u>-</u> | <u>2,651</u> |
| Total public utilities | 118,430 | - | 296,616 |
| Refuse collection | - | - | - |
| Depreciation | 593,146 | - | 728,317 |
| Amortization | <u>-</u> | <u>-</u> | <u>1,038</u> |
| Total depreciation and amortization | 593,146 | - | 729,355 |
| Other services and charges: | | | |
| Professional services | 8,497 | - | 8,070 |
| Municipal service charge | <u>21,000</u> | <u>-</u> | <u>21,000</u> |
| Total other services and charges | 29,497 | - | 29,070 |
| Supplies: | | | |
| Office | 723 | - | 726 |
| Operating | 57,229 | - | 161,288 |
| Computer | <u>2,261</u> | <u>-</u> | <u>2,273</u> |
| Total supplies | 60,213 | - | 164,287 |
| Insurance | 12,856 | - | 12,442 |
| Other | <u>2,795</u> | <u>-</u> | <u>697</u> |
| Total operating expenses | <u><u>\$ 1,132,460</u></u> | <u><u>\$ 64,423</u></u> | <u><u>\$ 1,887,308</u></u> |

Other Supplemental Information
Enterprise Fund - Water and Sewer Fund
Schedule of Operating Expenses
Year Ended June 30, 2008

| Activity | | | Year Ended June 30 | |
|-----------------------------|---------------------------|-----------------------|---------------------|---------------------|
| Sanitary Sewer Repair | Solid Waste Collection | Sewer Construction | 2008 | 2007 |
| \$ 30,027 | \$ - | \$ - | \$ 592,044 | \$ 569,176 |
| 9,499 | - | - | 339,890 | 312,910 |
| 39,526 | - | - | 931,934 | 882,086 |
| 6,460 | - | - | 30,360 | 53,490 |
| - | - | - | 118,479 | 79,896 |
| 6,460 | - | - | 148,839 | 133,386 |
| - | - | - | 84,921 | 20,218 |
| - | - | - | 321,987 | 378,292 |
| - | - | - | 8,138 | 6,407 |
| - | - | - | 415,046 | 404,917 |
| - | 454,213 | - | 454,213 | 445,429 |
| - | - | 3,967 | 1,325,430 | 754,655 |
| - | - | - | 1,038 | 1,038 |
| - | - | 3,967 | 1,326,468 | 755,693 |
| - | - | - | 16,567 | 77,189 |
| - | - | - | 42,000 | 42,000 |
| - | - | - | 58,567 | 119,189 |
| - | - | - | 1,449 | 1,356 |
| 291 | - | - | 218,808 | 188,860 |
| - | - | - | 4,534 | 5,134 |
| 291 | - | - | 224,791 | 195,350 |
| - | - | - | 25,298 | 40,312 |
| - | - | - | 3,492 | 27 |
| \$ 46,277 | \$ 454,213 | \$ 3,967 | \$ 3,588,648 | \$ 2,976,389 |

Statistical Information

City of South Lyon, Michigan

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PAGINATION WILL BE CORRECT.**

City of South Lyon, Michigan

Schedule of Taxes Levied, Collected, and Returned Delinquent - 2007 Tax Roll June 30, 2008

| | <u>Final Levy</u> | <u>Taxes Collected</u> | <u>Returned Delinquent</u> | <u>Percent Collected</u> |
|-------------------------------------|-----------------------------|-----------------------------|--------------------------------|------------------------------|
| Taxable Value: \$406,712,880 | | | | |
| City of South Lyon | \$ 6,156,732 | \$ 5,873,315 | \$ 283,417 | 95.40 |
| Specials | 11,355 | 2,949 | 8,406 | 25.97 |
| Downtown Development Authority | 56,156 | 45,994 | 10,162 | 81.90 |
| Administration fee | 111,769 | 106,717 | 5,052 | 95.48 |
| Oakland Community College | 639,570 | 614,314 | 25,256 | 96.05 |
| South Lyon Community Schools | 4,836,407 | 4,587,519 | 248,888 | 94.85 |
| State education | 2,440,277 | 2,341,325 | 98,952 | 95.95 |
| Oakland County | <u>3,250,313</u> | <u>3,120,367</u> | <u>129,946</u> | 96.00 |
| Total | <u>\$ 17,502,579</u> | <u>\$ 16,692,500</u> | <u>\$ 810,079</u> | 95.37 |

City of South Lyon, Michigan

Continuing Disclosure Undertaking Fiscal Year July 1, 2007 - June 30, 2008

A. Taxable Value - Fiscal Year 2008-2009

\$400,106,354

B. Taxable Value by Use and Class - Fiscal Year 2008-2009:

| Use | Taxable Value | Percent of Taxable Value | SEV | Percent of SEV |
|-------------------|-----------------------|--------------------------------|-----------------------|-------------------|
| Commercial | \$ 36,648,150 | 9.16 | \$ 47,583,620 | 10.69 |
| Industrial | 6,593,310 | 1.65 | 9,653,120 | 2.17 |
| Residential | 341,375,514 | 85.32 | 372,404,194 | 83.65 |
| Personal | 15,489,380 | 3.87 | 15,535,400 | 3.49 |
| Total | \$ 400,106,354 | 100.00 | \$ 445,176,334 | 100.00 |
| Class | | | | |
| Real property | \$ 384,616,974 | 96.13 | \$ 429,640,934 | 96.51 |
| Personal property | 15,489,380 | 3.87 | 15,535,400 | 3.49 |
| Total | \$ 400,106,354 | 100.00 | \$ 445,176,334 | 100.00 |

F. & G. Property Tax Rates by Governmental Unit - Fiscal Year 2008-2009

| City of South Lyon | Rate | City of South Lyon | Rate |
|---------------------------|----------------|------------------------------|----------------|
| General operation | 9.2300 | Huron Clinton Authority | .2146 |
| Capital improvements | 1.3500 | Oakland County | 4.4315 |
| Building Authority | .2700 | Intermediate schools | 3.3690 |
| Building Authority - Land | .2800 | Oakland Community College | 1.5844 |
| Land acquisition | .1200 | Zoo Authority | .1000 |
| Debt service - Sewer G.O. | 2.500 | | |
| | | South Lyon Community Schools | 18.0000 |
| | | State education | 6.0000 |
| | | South Lyon school debt | 8.5000 |
| Total City of South Lyon | 13.7500 | Total by governmental units | 57.2596 |
| District library | 1.1147 | | |
| Library debt | .1954 | | |

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2007 - June 30, 2008

H. Property Tax Collections - Fiscal Year 2007-2008 (as of 3-1-08) - 96%

I. 10 Largest Taxpayers - Fiscal Year 2008-2009

| Taxpayer | Principal Product or Service | Taxable Value |
|--|---------------------------------|-----------------------------|
| Colonial Hunt Club (Phase V) | Co-op | \$ 20,379,814 |
| Colonial Acres Development (Phases I-IV) | Co-op | 10,583,560 |
| Brookdale Assoc. LTD Partners | Apartments | 3,732,430 |
| Michigan Seamless Tube | Factory | 4,480,600 |
| Detroit Edison | Utility | 2,885,810 |
| J&R Management | Apartments | 2,716,040 |
| Brookwood Farms LLC | Rental Condos | 2,324,450 |
| Charleston Park Singh LLC | Subdivision | 2,298,940 |
| Gateway Commons Development | Commercial/office | 2,262,980 |
| Wolverine Property Invest. | Mobile Home Park | 2,252,550 |
| Total | | <u><u>\$ 53,917,174</u></u> |

J. Distributable Aid - State-shared Revenue - Fiscal Year 2007-2008: \$886,573

K. Legal Debt Margin

The following table reflects the amount of additional debt the City may legally incur as of June 30, 2008:

| | | |
|----------------------|-------------------|-----------------------------|
| Debt limit (1) | | \$ 44,517,633 |
| Debt outstanding | \$ 19,314,035 | |
| Less exempt debt (2) | <u>15,175,000</u> | <u>4,139,035</u> |
| Legal debt margin | | <u><u>\$ 40,378,598</u></u> |

(1) 10 percent of the City's \$445,176,334 SEV for the fiscal year ended June 30, 2009. See "Property Valuations" herein.

(2) See "Statutory and Constitutional Debt Provisions" herein.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2007 - June 30, 2008

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2008.

To the extent necessary, the City may levy taxes on all taxable property within its boundaries without limitation as to rate or amount to pay the principal of and interest due on the bonds in the following table, which are designated as "UT." However, the City's ability to levy tax to pay the debt service on the bonds, which are designated as "LT," is subject to applicable charter, statutory, and constitutional limitations.

| City Direct Debt | Gross | Self-supporting | Net |
|-----------------------------------|----------------------|-------------------|----------------------|
| General obligation bonds - | | | |
| Dated September 1, 2000 (UT) | \$ 875,000 | \$ - | \$ 875,000 |
| Building Authority bonds: | | | |
| Dated June 9, 2005 (LT) | 310,000 | - | 310,000 |
| Dated July 1, 1999 (LT) | 895,000 | - | 895,000 |
| Dated September 1, 1996 (LT) | 710,000 | 412,155 (1) | 297,845 |
| Subtotal | 1,915,000 | 412,155 | 1,502,845 |
| State Revolving Fund Loan - | | | |
| Dated March 27, 2003 (UT) | 15,725,982 | - | 15,725,982 |
| Installment purchase obligations: | | | |
| Dated June 7, 2000 (LT) | 122,283 | - | 122,283 |
| Dated November 28, 2005 (LT) | 80,000 | - | 80,000 |
| Dated January 17, 2008 (LT) | 135,000 | - | 135,000 |
| Dated February 14, 2008 (LT) | 460,770 | - | 460,770 |
| | 798,053 | - | 798,053 |
| Total | <u>\$ 19,314,035</u> | <u>\$ 412,155</u> | <u>\$ 18,901,880</u> |

Per capita net City direct debt (2) \$ 1,883.41
Percent of net direct debt to SEV (3) 4.25%

City of South Lyon, Michigan

Continuing Disclosure Undertaking (Continued) Fiscal Year July 1, 2007 - June 30, 2008

| Overlapping Debt (4) | Gross | City's Share as | |
|--------------------------------------|-----------------------|-----------------|----------------------|
| | | Percent of | |
| | | Gross | Net |
| South Lyon Schools | \$ 204,805,000 | 21.04 | \$ 43,090,972 |
| Oakland County | 109,962,280 | 0.63 | 692,762 |
| Oakland Intermediate School District | 53,730,000 | 0.63 | 338,499 |
| Oakland Community College | 7,965,000 | 0.63 | 50,180 |
| Salem-South Lyon District Library | 1,405,000 | 54.73 | 768,957 |
| Totals | <u>\$ 377,867,280</u> | | <u>\$ 44,941,370</u> |

Per capita net overlapping debt (2) \$ 4,478.02
Percent of net overlapping debt to SEV (3) 10.10%

Per capita net direct and overlapping debt (2) \$ 6,361.43
Percent of net direct and overlapping debt to SEV (3) 14.35%

(1) Represents 58.05 percent of the 1996 Building Authority Bonds, which is being paid by the South Lyon Schools

(2) Based on the City's 2000 Census population of 10,036

(3) Based on \$445,176,334, which is the City's SEV for the fiscal year ending June 30, 2009

(4) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of South Lyon

City of South Lyon, Michigan

Report to the City Council

June 30, 2008

To the City Council
City of South Lyon, Michigan

We have recently completed our audit of the basic financial statements of the City of South Lyon, Michigan (the "City") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the City:

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We are grateful for the opportunity to be of service to the City of South Lyon, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

September 9, 2008

Report on Internal Control

September 9, 2008

To the City Council
City of South Lyon, Michigan

Dear Council Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the City's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards is to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the City of South Lyon, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weakness, as defined above.

This communication is intended solely for the information and use of management, the council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script, appearing to read "Leslie J. Pulver".

Leslie J. Pulver

A handwritten signature in cursive script, appearing to read "Brian J. Camiller".

Brian J. Camiller

Results of the Audit

September 9, 2008

To the City Council
City of South Lyon, Michigan

We have audited the financial statements of the City of South Lyon, Michigan for the year ended June 30, 2008 and have issued our report thereon dated September 9, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 29, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of South Lyon, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 15, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates included in the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated September 9, 2008

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

This information is intended solely for the use of the city council and management of the City of South Lyon, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read "Leslie J. Pulver".

Leslie J. Pulver

A handwritten signature in black ink, appearing to read "Brian J. Camiller".

Brian J. Camiller

Other Recommendations

Financial Results/Plans

The City's General Fund fund balance decreased in the current year from approximately \$3,338,000 to \$3,126,000. This result, a decrease of approximately \$212,000, is better than expected as the final amended budget called for a decrease of approximately \$347,000. Over the years, the City has been able to absorb periodic deficits because of the fund balance accumulated over time through budgetary foresight and diligence. The City of South Lyon continues to be in a position to withstand the very difficult financial climate that exists today. As we know you are well aware, the 2008-2009 fiscal year and beyond may be even more challenging, and we encourage the City to continue to closely monitor this year's budget as well as revenue forecasts for the 2009-2010 fiscal year.

Water and Sewer Rates

Due to raising customer rates and a decreased water loss, water and sewer operations did provide sufficient cash flow to cover operational needs; however, capital and related financing activities more than offset this cash increase. Overall, the cash available for operational use continues to decrease. In the current year, the cash available for operations decreased from approximately \$711,000 to \$591,000. We encourage the City to continue reviewing the current rate structure and make additional changes as necessary.

Enterprise Fund Debt

The accumulated cash available to be used to pay the debt service related to the 2003 State Revolving Fund loan is \$1,663,653. The approximate annual debt service due is \$1,090,000. Ideally, no more than one year's worth of debt service would be accumulated. While this balance has been decreasing over the past two years, we encourage you to consider the accumulated balance and the upcoming debt service payments when setting next year's levy.

Informational

Revenue Sharing

The governor released her proposal of the State's fiscal year 2009 budget (for the year ending September 30, 2009) originally in February 2008. Over the course of budget deliberations in the spring and early summer, the Legislature further debated the level of the revenue sharing funding, resulting in a compromise by the Senate and House to fund revenue sharing equal to the projected fiscal year 2008 (fiscal year ending September 30, 2008) amounts, plus provide an increase of 2 percent of the statutory portion of revenue sharing received in fiscal year 2007. This proposal was presented to the governor on July 25, and was enacted in August.

Here is a summary (in millions of dollars) of the revenue sharing budget submitted to the governor:

| | FY 2007 Actual | FY 2008 Projected | FY 2009 Projected | Percent Change |
|---------------------------------|---------------------|----------------------|----------------------|-------------------|
| Cities, Villages and Townships: | | | | |
| Constitutional | \$ 665,980 | \$ 682,780 | \$ 675,992 | -0.99% |
| Statutory | <u>404,920</u> | <u>392,050</u> | <u>406,933</u> | 3.80% |
| Total to CVT's | 1,070,900 | 1,074,830 | 1,082,925 | 0.75% |
| Counties (statutory) | - | - | 2,394 | n/a |
| Total revenue sharing | <u>\$ 1,070,900</u> | <u>\$ 1,074,830</u> | <u>\$ 1,085,319</u> | 0.98% |

While the projection is for an overall increase of 0.75 percent (for cities, villages, and townships), the impact will not be evenly distributed between all local units. Remember, the 2 percent increase is for the statutory portion only - not the constitutional portion. The intent is for the total revenue sharing (constitutional plus statutory) in fiscal year 2009 to equal the total of constitutional and statutory revenue sharing received in fiscal year 2008, plus an additional payment equal to 2 percent of the FY 2007 statutory revenue sharing received by the local unit. That may mean that for those units (primarily townships) that now receive no statutory revenue sharing, total revenue sharing projected for fiscal year 2009 will be identical to the amounts received in FY 2008. We are awaiting a final distribution table from the Michigan Department of Treasury.

City of South Lyon, Michigan

Informational

The governor's proposed budget also included \$2.4 million to restore state revenue-sharing payments for the six qualifying counties that will exhaust their revenue-sharing reserve funds in fiscal year 2008/2009. As you may remember, a reserve fund was created for each county in 2005 when the State eliminated counties from the revenue-sharing program (remember, counties only receive statutory revenue sharing, not constitutional). In 2005, counties were required to phase in the early collection of winter property tax payments and to create a reserve fund with a portion of these monies. Counties have been drawing on their reserve funds to replace lost statutory revenue sharing. When the reserve fund is depleted, counties will then look to the State to re-enter the statutory portion of the revenue-sharing program. Prior to their elimination from the revenue-sharing program in 2005, counties statewide received approximately \$182 million annually.

It is encouraging that this budget funds revenue sharing at a higher level than last year. As counties have started to come back into the formula, the legislature has budgeted this as an additional payment, rather than one that reduces distributions to the other local units of government. To a great extent, however, actual revenue-sharing distributions will depend on the stability of the State's budget, as well as the actual level of state tax collections. In addition, we need to remember that the statutory formula expired in 2007 and a new, permanent formula has not been enacted - please remember to remind your state representatives of the importance of extending this legislation.

The table below details state-shared revenue for the City since 2000 broken out by statutory and constitutional portions.

| State Fiscal Year | Statutory | Constitutional | Total | Decrease from 2001 |
|----------------------|------------|----------------|------------|-----------------------|
| 2000 | \$ 358,310 | \$ 439,193 | \$ 797,503 | \$ NA |
| 2001 | 408,590 | 651,258 | 1,059,848 | - |
| 2002 | 353,377 | 657,891 | 1,011,268 | (48,580) |
| 2003 | 298,002 | 669,031 | 967,033 | (92,815) |
| 2004 | 207,361 | 661,763 | 869,124 | (190,724) |
| 2005 | 182,096 | 677,555 | 859,651 | (200,197) |
| 2006 | 161,056 | 688,835 | 849,891 | (209,957) |
| 2007 | 149,300 | 677,664 | 826,964 | (232,884) |
| 2008 | 132,972 | 691,798 | 824,770 | (235,078) |
| 2009* | 145,851 | 684,919 | 830,770 | (229,078) |

*Estimated

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has approximately \$146,000 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Property Tax Developments

The front page story several months ago is now old news. For many communities in Michigan, the challenging real estate market will negatively change the taxable value trends of recent years. Many communities saw modest declines in their 2008 taxable values, and if the downward trend in the housing market continues, the impact will be larger next year. How it will actually play out in each community and over what period of time remains to be seen. While each community will need to carefully determine the impact of the current environment on its budget, there are also several pieces of legislation in Lansing that will impact property taxes going forward. Examples include:

- House Bill 4215 (Public Act 96 of 2008) allows property owners to obtain two principal residence exemptions in certain situations. The bill was designed for situations where a homeowner has purchased a new home and is unable to sell the existing home. The dual exemption only applies if certain conditions are met (i.e., the property previously occupied is for sale, not occupied, not leased or available for lease, etc.).
- A series of bills were introduced in March 2007 as part of a package to stimulate home sales (House Bills 4440, 4441, and 4442). The lead bill of that package, House Bill 4440, establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years. House Bill 4440 actually passed the House in March 2007 and is currently in the Michigan Senate.
- Many property owners continue to struggle with the concept that their individual taxable values actually increased during a time that overall property values - and even their individual property values - have fallen. As we all have re-learned in recent months, that is a constitutional requirement that changed with Proposal A in 1994. It may be helpful to remember the principle behind Proposal A - its purpose was to disconnect taxable values from market value increases, and instead limit the growth in taxable values to the lesser of 5 percent or inflation, until that point that the property transfers ownership. Now that the market values are declining in many areas, Proposal A continues to stay disconnected, and allows the taxable value to increase by the lesser of 5 percent or inflation (up until the point that it re-connects with market values)

Fairly or not, this year, many property owners said it did not feel right when they saw their taxable value increase by inflation when market value did not. This has led to a discussion as to whether a third variable, called “change in market value”, needs to be added to the Proposal A formula. In what some are calling a “super cap”, the Proposal A formula to determine annual increases in taxable value (if property is not sold or transferred) would be the lesser of three components: inflation, change in market value or 5 percent. Therefore, if the market value of the parcel was either flat or declining - even if the taxable value of the particular parcel was less than state equalized value - there would be NO annual increase. To date, a proposal to accomplish this change has not moved through the Legislature. A change of this nature would impact local government budgets.

- As part of the changes to the single business tax last year and the introduction of the Michigan business tax, changes were also made to the calculation of tax rates applicable to industrial and commercial personal property taxes. As advertised, industrial personal property taxpayers received a reduction of the school operating mills (up to 18 mills) and the 6 mill state education tax. Commercial personal property taxpayers received a reduction of up to 12 school operating mills. However, if your community has a school district with “hold harmless” school mills, you must add back any hold harmless millage prior to computing the total mills to be levied. This may generate questions from commercial and industrial taxpayers.
- A Michigan Supreme Court case has changed how local governments can treat public service improvements by developers. Leading up to the court case, as private property owners or developers installed public service improvements (i.e., street lights, water and sewer lines, etc.) there was normally an increase in their property tax assessment. The Michigan Supreme Court upheld a Court of Appeals ruling that the installation of public service improvements does not constitute a taxable addition.

Reminder - Change in Investment Act

Public Act 213 of 2007, adopted at the end of 2007, requires local governments to perform their investment reporting quarterly to the governing body. The investment of surplus monies by Michigan local governments is controlled by Public Act 20 of 1943. The Act previously required investment reporting annually. It is suggested that the required quarterly reports list investments by institution along with maturity dates and interest rates.

We would like to thank the City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit and, in particular, the City’s finance department staff. If any questions arise on reviewing the financial statements or on the above comments, we would be happy to discuss them with you further.